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SUMMARY OF MAJOR DEVELOPMENTS

With approximately 27.3 million people, an abundance of natural resources, and a decent but weakening infrastructure, Uzbekistan has all the ingredients needed to become a regional economic powerhouse.

Lack of macroeconomic and structural reforms, however, deter many foreign investors, leaving Uzbekistan with one of the lowest levels of foreign direct investment (FDI) per capita in the former Soviet Union. Employees are legally entitled to a wide range of rights, many on the books since the Soviet era, such as the right to social protection and the right to join a trade union. However, in practice, many of these rights are not properly enforced and are left to management for interpretation.

BACKGROUND

A socialist republic was established in 1924. During the Soviet era, intensive production of "white gold" (cotton) and grain led to overuse of agrochemicals and the depletion of water supplies, which have left the land poisoned and the Aral Sea and certain rivers half dry. Independent since 1991, the country seeks to develop its mineral and petroleum reserves. Current concerns include terrorism by Islamic militants, economic stagnation, and the curtailment of human rights and democratization.

Uzbekistan is an authoritarian state with limited civil rights. The Oliy Majlis (Parliament) consists entirely of officials appointed by the President and members of the parties that support him. Parliament has both an Upper House or Senate (100 seats: 84 members are elected by regional governing councils to serve five-year terms and 16 are appointed by the president) and a Lower House or Legislative Chamber (120 seats elected by popular vote to serve five-year terms).

The government is secular, with no official state religion. The government, however, shows its support for the country's Muslim heritage by funding an Islamic University and facilitating citizens'

participation in the Hajj. The government promotes a moderate version of Islam through the control and financing of the Muslim Board of Uzbekistan. This Board controls the Islamic hierarchy, the content of imams' sermons and the volume and substance of published Islamic materials.

With approximately 27.3 million people, Uzbekistan is by far the most populous of the five Central Asian Republics of the former Soviet Union. The capital Tashkent has a population of 2.5 million.

Situated on the ancient Silk Road between Europe and the Far East, the cities of Samarkand, Bukhara and Khiva have been centers of commerce and trade for centuries and have undergone little renovation since the dissolution of the Soviet Union in 1991.

Uzbekistan has all the ingredients needed to become a regional economic powerhouse: a literate and entrepreneurial population, a central location at the crossroads of Central Asia, and relatively good infrastructure and rich mineral resources. However, the government's extremely restrictive trade policies severely discourage business activity and have begun to promote Uzbekistan's accelerating economic decline. The main political factor affecting the business climate in Uzbekistan is corruption. Another key factor is stringent Soviet-style centralization of power, with important decisions only made at the top. There is also societal discrimination against women and persons with disabilities.

The failure to reform has strained relations with the International Monetary Fund (IMF) and most other international financial institutions. Lack of macroeconomic and structural reforms has led to the failure to privatize state-owned enterprises, an inefficient bureaucracy, and systemic corruption. Uzbekistan's policies have created a multitude of problems for businesses and investors. From 1996 until the spring of 2003, the official and so-called "commercial" exchange rates were highly overvalued. Many businesses

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and individuals were unable to buy dollars legally at these rates, so a widespread black market developed to meet hard currency demand.

However, by mid-2003, the gap between the black market, official, and commercial rates had been reduced to approximately 8%. From 2004 to 2007, the gap between the two rates was negligible. Although the unification of the exchange rates was a positive development, government restrictions in 2004 on the amount of local currency and hard currency that could be carried across the Uzbek border in either direction lessened the effect of currency convertibility on the Uzbek economy. The government continues to stifle economic growth by tightly controlling access to soum in order to prohibit inflation and to place downward pressure on the exchange rate.

DESCRIPTION OF THE LABOR SCENE

Government

The Ministry of Labor and Social Protection (MOLSP) is divided into the following departments: Monitoring and Labor Regulations Development, Demography, Job Markets and Employment, Pensions, and Social Aid and Support. The Ministry also includes several Bureaus:

Incomes and Expenditures of the Off-budget Pensions Foundation, Incomes and Expenditures of the State Employment Foundation, Financial/Economic Planning and Social Protection, and Safety at Work. Other offices in the Labor Ministry are: State Inspection of Worker's Rights, Republican Inspection on Appraisal and Rehabilitation of Invalids, Administration, Personnel Bureau, and the Chancellery. The Ministry of Labor also includes regional offices, a Tashkent headquarters, the MOLSP of the Republic of Karakalpakstan, district (town) offices of labor, employment and social protection and district (town) offices of social insurance.

The following ministries and governmental bodies also have labor functions and responsibilities: The Ministry of Economy; regional Departments of Labor and Social Protection; and regional Economy Departments.

Unions

The most significant and all-encompassing union in the country is the state-run Board of the Trade Union Federation of Uzbekistan. There are regional and industrial trade union committees that operate under this main board and have local responsibilities, all of which are state-owned.

Employers

There is a state-run Chamber of Commerce and Industry. Employees of either state owned or foreign owned enterprises enjoy many rights by law, such as minimum wage and pensions. However, in practice these laws are left to interpretation. There is no state institution responsible for labor arbitration. The general court system, where civil and criminal cases are tried, is responsible for resolving labor-related disputes. This can be done on a regional or city-level. The Supreme Economic Court is responsible for resolving economic cases at the national level.

The Economy and Labor

There are no reliable unemployment statistics, but the number of unemployed and underemployed is widely considered to be high and growing. Underemployment in the agricultural sector is particularly high, which is important given the fact that over 60% of the population is rural-based. A stagnant economy has contributed to an accelerated migration of workers, mainly to Russia and Kazakhstan.

The government unofficially restricts the amount of soum that banks are allowed to release into circulation. The largest strike since independence took place in August 2003 at the Ferghana Refinery with more than 2,000 workers striking when they had not been paid for more than six months and had not received other benefits since 2001. Other large strikes have occurred in Angren and other parts of the country. It is not believed that workers' rights organizations organized these strikes.

Following the government's exchange rate adjustment in October 2003, wage arrears by state-owned enterprises reached record amounts. Despite promises to the IMF that wage arrears would all be completely paid by April 2004, the problem persists, although at a lesser level than in 2003-2004.

Although the official rate of inflation declined from 7.8% in 2005 to 6.8% in 2006, international financial institutions estimated it was 25-30% or higher. In 2004, the government slashed several thousands of civil service jobs. Foreign Direct Investment (FDI), one of the lowest in the region, continues to decrease.

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Unemployment tied to escalating rates of underemployment and hidden employment make the figures nearly impossible to calculate.

Women comprise 42 percent of the labor force, with more than half of them concentrated in the health, education and culture sectors.

The accelerating economic decline in Uzbekistan has led many laborers to migrate mostly to neighboring Kazakhstan or Russia looking for work. Uzbek labor migrants, mostly illegal, flock to Russia, Kazakhstan, and other countries to work in construction, agriculture, textiles processing, and other service sectors.

Uzbekistan, along with the U.S., Kyrgyzstan, Kazakhstan and Turkmenistan, signed a regional Trade and Investment Framework Agreement (TIFA) in 2004. The TIFA would reduce barriers to trade within the region and increase total regional trade figures. The impact this agreement has on workers in Uzbekistan or on U.S. employment is being studied.

LABOR LAW AND SYSTEM

The Labor Code establishes the following rights and guarantees: right to fair remuneration of labor, right to holidays with pay; right to social protection, right to have normal working conditions, right to be a trade union member; and right to appeal to the court if labor rights have been violated.

The Labor Code also regulates child labor. The law establishes a right to have a part-time job beginning from the age of 14, if written approval has been given by the parents. However, in practice, restrictions on child labor are applied very liberally, especially during the cotton harvest season, when schools are closed in most regions outside of Tashkent to encourage all families to allow their children to work in the fields. Children, many as young as 7 or 8, routinely work in family businesses in the cities during school holidays and vacations.

There are no non-State workers' rights organizations in Uzbekistan. Individual state-owned enterprises have their own inspection services, and state-run trade unions are also responsible for safety inspections. The General Prosecutor's office is responsible for implementation of labor legislation, including supervision of recovery of arrears for employees working in the private sector.

Despite constitutional provisions for an independent judiciary, the executive branch heavily influences the courts in both civil and criminal cases and does not ensure due process. The President appoints or approves judges for 5-7 year terms and has power to remove judges. Corruption among judges remains a problem.

The majority of the labor legislative framework was established during the Soviet Union (established in 1955-1956 primarily). These laws have been marginally updated following independence in the early 1990s. However, the previous methodology still applies to social security and other employee benefits. The most significant labor laws adopted since independence include: The Labor Code of the Republic of Uzbekistan (1996) and the Law "On Employment" (1992, amended in 1998). No significant changes have been made to the labor code since 1996.

Uzbekistan has ratified ILO Conventions on Forced Labor; 40-Hour Week; Holidays with Pay; Rights to Organize and Collective Bargaining; Equal Remuneration; Maternity Protection; Abolition of Forced Labor; Discrimination; Employment Policy; Workers' Representatives; and Collective Bargaining.

LABOR STANDARDS AND WORKER RIGHTS

The Right of Association

The law provides that all workers have the right to form and join voluntarily unions of their choice, and that trade unions themselves may associate voluntarily by geographic region or industry sector. However, workers do not do so in practice. Membership in trade unions is optional. The law also declares that all unions are independent of governmental administrative and economic bodies. (Some exceptions are made by other laws.) The law states that trade unions should develop their own charters, structure, and executive bodies and organize their own work. However, trade unions remained centralized hierarchically and dependent on the government. No alternative union structures or independent unions exist. Although the law prohibits discrimination against union members and officers, it was irrelevant due to unions' close relationship with the government.

There are a few professional associations and interest groups, such as a union of entrepreneurs, union of renters, an association of

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private physicians and pharmacists, and registered professional associations for judges and lawyers (quasi-governmental). The professional associations do not license members or advocate their interests in relation to the government. They are purely for professional development.

The law prohibits discrimination against union members and their officers.

The law allows unions to choose their own international affiliation, but none has done that.

The Right to Organize and Bargain Collectively

Unions and their officers are not free to conduct their activities without interference from the government. Although laws exist to safeguard the right to organize and bargain collectively, they are not adequate to protect this right in practice. Trade unions are state-organized institutions and have little influence except some input on health and work safety issues.

Trade unions may conclude agreements with enterprises. However, progress in privatization is very limited and collective bargaining does not occur. As a result, there was no experience with negotiations that could be described as adversarial between unions and private employers. The State is still the major employer, and union leaders are state-appointed.

The Ministry of Labor and the Ministry of Finance, in consultation with the Council of the Federation of Trade Unions (CFTU), set wages for various categories of government employees. In the small private sector, management established wages or negotiated for them with the employment officials.

The trade union law does not mention strikes or cite a right to strike. The law does give unions oversight for both individual and collective labor disputes, which are defined as those involving alleged violations of labor laws, workers' rights or collective agreements.

There are no export processing zones.

The government has ratified ILO Convention 98 on Freedom of Association and Collective Bargaining.

Prohibition of Forced or Compulsory Labor

The Constitution specifically prohibits forced or bonded labor, including by children, except as legal punishment or as specified by law. However, such practices have been reported to occur. There are reports of continued mobilization of youth for work in the cotton harvest.

The government has ratified ILO Conventions 29 and 105 on Elimination of Forced and Compulsory Labor.

Status of Child Labor Practices and Minimum Age for Employment

The Constitution provides for free compulsory education through secondary school. The government's education reform program has expanded the compulsory form of study from 9 to 12 years and has increased the level of pre-professional training. However, shortages and budget difficulties have led to education expenses having to be paid privately by parents.

The Labor Code mandates that the minimum working age is 16. Work must not interfere with the studies of those under 18. Children between the ages of 14 and 16 may only work with written permission of parents. They may work 20 hours per week when school is not in session and 10 hours per week when school is in session. Children between the ages of 16 and 18 may work 30 hours per week while school is not in session and 15 hours per week while school is in session. Persons under 18 must undergo an annual medical health examination at the employer's expense. There are extensive regulations on working conditions of the underage, including a prohibition of night shifts and limitations on manual lifting.

The Ministry works with the ILO's program on child labor in Uzbekistan. The government has not yet ratified ILO Conventions 138 on minimum age of employment or 182 on the worst forms of child labor.

The large-scale compulsory mobilization of youth and students to help with the cotton harvest during the fall-a practice that dates back to Soviet days-continues in some areas. Students in cotton fields are poorly paid and are sometimes required to pay for their food. There have been reports that local officials beat some

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teachers who objected to their students being removed from class to

participate in the harvest. A joint legal resolution issued by the Ministry of Labor and Ministry of Health, and registered by the Ministry of Justice in September 2001 (No. 1040), lists cotton picking and other forms of child labor in the national list of unfavorable working conditions prohibited to workers under 18 years of age.

The Ministry of Labor and the Prosecutor's office are the principal bodies responsible for reporting violations to the Prosecutor's office. The law provides for criminal and administrative sanctions to punish violators. Sanctions were not adequate to punish or to deter violations related to the cotton harvest, or were not enforced. There were no reports of prosecutions or administrative sanctions resulting from such inspections.

Discrimination in Employment

The law does not prohibit sexual harassment. Social norms and the lack of legal recourse make it difficult to assess the scope of the problem. Although the law prohibits discrimination against women, traditional, cultural, and religious practices limited their role in society. Women are severely underrepresented in high-level positions. However, women who open businesses or seek careers are not hindered legally. Women are underrepresented in the industrial sector, but well represented in the agricultural and small business sectors. A deputy prime minister is charged with furthering the role of women in society.

The law provides for support for persons with disabilities; however, little attempt is made to bring the disabled into the mainstream.

Ethnic groups other than Uzbeks, particularly Russians, complain about job opportunities being limited for them. Senior positions in the government bureaucracy and business generally are reserved for ethnic Uzbeks, although there are exceptions. The requirement to speak and read the Uzbek language in government jobs is often cited as a limiting factor for ethnic Russians.

The government has ratified ILO Conventions 100 and 111 on the Elimination of Discrimination in Respect of Employment and Occupation.

Acceptable Conditions of Work

The Ministry of Labor in consultation with the CFTU sets the minimum wage. In 2005, the minimum wage was approximately 9,400 soum (\$8.25) per month. In October 2006 the minimum wage was raised to 12,420 soum (\$10) per month. The minimum wage does not provide a decent standard of living for a worker and family. Average government salaries are approximately \$35 to \$40 per month, but slightly higher in Tashkent.

The standard work week is set at 40 hours with a required 24-hour rest period. Some factories reduce work hours to avoid layoffs. Overtime pay exists in theory but not in practice. Payment arrears of four to six months are not uncommon for workers in state-owned industries and government offices, though the problem is less severe than in 2003-2004.

The MOLSP establishes and enforces occupational health and safety standards in consultation with the unions. The local press occasionally publishes complaints about the failure of unions and government officials to promote worker safety. Workers in hazardous jobs often lack protective clothing and equipment. Workers are permitted to leave jobs that are hazardous without jeopardizing their employability in other jobs. There are high rates of underemployment.

Trafficking in Persons (TIP)

Uzbekistan is primarily a source, and, to a lesser extent, a transit country for trafficking. Typically, women are trafficked for sexual exploitation and men for labor exploitation. The main destination countries for female trafficking victims are the United Arab Emirates, Israel, Turkey, South Korea, Thailand, Malaysia, Western Europe, and other former Soviet states. Men are trafficked to Russia and Kazakhstan for exploitation in construction, agriculture and service sectors. Uzbekistan's 2005 entry into the Eurasian

Economic Community (EurAsEc) could help to harmonize migration legislation. The government has taken some steps to address trafficking, including cooperating with a local NGO to facilitate repatriation of victims.

Social Safety Net

The legal framework covering the social security system has been

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changed very little since the Soviet era when unemployment was rare, and everyone received free healthcare and some sort of pension. The reality today, however, is that these regulations are not followed, or, due to the declining economic situation, benefits have unofficially decreased. The pension system, for example, has not changed since the Soviet era and is calculated by the number of years the person has worked. Females over 55 and males over 60 are supposed to receive their pension monthly. However, government-inflicted cash shortages have delayed these payments, in some cases for more than 5-6 months. The 2006 minimum pension is 24,600 soum (\$20) per month, while the maximum pension is approximately 40,000 soum (\$35) per month. The legal framework also covers benefits for the disabled and surviving dependents.

Official maternity benefits are extended for 70 days before childbirth and until 56 days after. For up to two years after the child is born, the employers frequently pay a small salary to women of around 12,240 soum (\$10) per month, although law does not mandate this. The mahalla (neighborhood) committees pay a small allowance monthly on a case-by-case basis for low-income families receiving less than minimum wage. A woman is entitled to three years of unpaid leave after childbirth. Paternity benefits are not covered in Uzbek law. Anecdotal reports indicate that the majority of employers abide by maternity benefit regulations.

On paper, all Uzbek citizens are covered by a universal healthcare system, with free medical care and medicines. However, the reality is that the majority of patients pay an average of \$5-10 for a doctor visit. Women have reported that, for certain doctors, they have had to provide sterile gloves and paper for the examination table before they would be seen. Since 1996, there has been an increased privatization of medical services. There are now many private clinics, with more modern equipment, where Uzbeks can pay for improved care.

FOREIGN INVESTMENT POTENTIAL

It is the declared policy of the government to attract foreign investment. Direct foreign investors have in the past been granted a host of incentives on a case-by-case basis, including tax holidays, duty-free capital goods imports, and protection against expropriation. However, legislative requirements for these benefits are ambiguous, processes and procedures are cumbersome, and the regulatory environment is capricious. While these conditions provide opportunities for companies in a position to turn special decrees and privileges to their advantage, most potential investors are deterred. As a result, Uzbekistan has so far attracted less foreign direct investment per capita than other countries in the region despite its strategic location and considerable economic potential. There are no official limits on foreign ownership or control of enterprises in Uzbekistan, although the government keeps a controlling share in a number of strategic industries (such as mining, agriculture, machinery manufacturing). Local companies frequently seek international registration in order to receive better treatment in tenders with the government.

Literacy in Uzbekistan is reportedly almost universal, and workers are generally well educated and trained. Most local technical and managerial training does not meet international business standards, but foreign companies engaged in production report that Uzbek workers learn quickly and work effectively. In the past the government emphasized foreign education, sending students to the United States, Europe and Japan for university degrees. Several hundred studied on Presidential scholarships requiring a five-year commitment to work for the government upon their return home. Some American companies have offered special training programs in the

U.S. to their local employees. With the closure or downsizing of many foreign firms, it is relatively easy to find qualified, well-trained employees, and salaries are very low by Western standards. However, many skilled workers have left the country to find higher paying jobs abroad, particularly in Kazakhstan. Salary caps, implemented to prevent firms from circumventing cash withdrawal restrictions, prevent many foreign firms from paying their workers as much as they would like.

Labor market regulation in Uzbekistan is similar to that of the Soviet Union, with all rights guaranteed but many rights unobserved or under-enforced. Past cases of workers striking included: Turkish construction workers striking against their Turkish employer over working conditions, textile workers who picketed in front of the Ministry of Light Industry due to nonpayment of wages, large-scale bazaar strikes in light of stark increases in stall fees, an increase in taxes on imported products, and strikes due to wage arrears.

DIRECTORY OF LABOR CONTACTS

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GOVERNMENT

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Deputy Minister for Labor Issues
Botir Alimukhamedov

Chief of the Agency on Labor and Migration Affairs
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EMPLOYERS (Government-run)

Chairman, Chamber of Commerce and Industry
Mr. Alisher Shaikhov

TRADE UNIONS (Government-run)

Chairwoman, Council of Federation of the Trade Unions
Ms. Dilbar Nabieva Jahongirova
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